



ECONOMIC DEVELOPMENT THEORIES AS SUPPORTING STRUCTURE OF GROWTH AND DEVELOPMENT STUDIES: A REVIEW

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Abstract:

Economic development theories are the supporting structure of growth literature. In view of this, this paper attempts to review selected economic development theories with the aim of highlighting their relevance to the growing empirical debate on growth and development. From the front of classical theories of economic development came the modernisation theory which focuses on effecting transformation among institutional structures in less developed countries of the world through cultural changes while buttressing that political development is indispensable in ensuring progress and conducive environment for a nation's economic status. The theory, therefore, acknowledges the important role of politics in formulation and implementations of policies. As a response to criticisms of the dependency school and the theory of modernization, the world-systems and globalization theory emerged as direct outgrowth of the modernity and the dependency. The world-systems and globalization theories argue for a systemic level or unit of analyses order than a state-centric approach to social and economic progress while proposing a knowledge economy where cutting-edge technology plays major role in global industrialisation, capital accumulation. Furthermore, the theory of neoliberalism argue that free global trade can drive economic growth and large businesses can benefit more without government intervention.

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1. Overview of Economic Development Theories

1.2 Modernisation Theory

From the front of classical theories of economic development came the modernisation theory which has strong capitalist undertone. Modernisation theory is a theory that applies a systematic process in moving undeveloped countries to a more advanced level of development. The focal point of the theory is effecting transformation among institutional structures in less developed countries of the world through cultural changes (Cooper, 2004). Modernisation theory emphasises variations within or between nations due to differences in values, systems and ideologies of different nations. Modernisation theory buttresses that political development is indispensable in ensuring progress and conducive environment for a nation's economic status (Shareia, 2015).

The theory acknowledges the important role of politics in formulation and implementations of policies. The conceptualization of modernisation theory therefore draws reason from the premises that policies appear to enhance the standard of living of the poor by encouraging information and knowledge dissemination about more efficient techniques of production (Matunhu, 2011). Modernization theory seeks to explain the process of social evolution by identifying social variables necessary for social progress and societal developments. Hence, the theory further highlights the roles of Science and technology in advancing industry and stimulating economic growth. Development can therefore be achieved when a country's industrial outputs and exports goods to the world economy are high.

The modernisation theory contends that development entails concerted effort in helping the post-colonial world along the path to progress towards modernity (Nhema & Zinyama, 2016). In addition, the idea proposes the development of new sources of integration, given differentiation of societal roles and functions, and institutions (Valenzuela & Valenzuela, 1978).

Despite the gains adduced by the progenitors of this theory, the ideas are being strongly resisted in some jurisdictions (Gow, 2005). Modernisation theory portends that modern societies are more productive, greater education attainment, and improved welfare. Modernisation is a progressive process that once it starts, it cannot be stopped – an irreversible process which, in the long run, is not only inevitable but desirable (Reyes, 2001). Modernisation proposes that in order for poor nations to develop, they need to deconstruct their traditional values and adopt Western values. The theory recognises that positive aspects of culture and traditional values promote sustainable solutions to most social and economic problems (Tagarirofa, 2017).

1.3 The Dependency Theory

Dependency theory came as a critical response to the conservative development approaches that held sway in the aftermath of the World War II, and the collapse of the world colonial system (Gabrielyan, 2014). Despite the fact that Africa went through the peril of participating in the second world war; being a casualty of the slave trade; and

being traumatised by, and lost the control and the exploitation of its raw materials, mineral resources, agricultural products for the industrialisation of Europe, Africa did not receive its own fair share of the Marshall Plan geared towards the development of the continent. Consequently, Africa was handicapped, cheated and short-changed (Uche, 1994).

Dependency ideas have since been explored with emphases on its relevance and implications in Africa (Mawire, 2013; Uche, 1994; Emeh, 2013; Nhema and Zinyama, 2016), Latin America (Chilcote, 1974; Sanchez, 2003; So, *n.d.*; Kay & Gwynne, 1998), and Asia (Kay, 1989; Hein, 1992; Ohnesorge, 2007). Even though the modernisation ideologues to which it reacted was an American product, the root of the dependency school was in the third world countries (So, *n.d.*). The opinion of the theory is that resources flow from a periphery of underdeveloped countries to a core industrialized states, enriching the latter at the expense of the former.

According to Smith (1981), the novelty of the dependency school is that it has broadened the study of advanced capitalist expansion into the very roots where it has remained on the periphery in an effort to demystify the niggling problems of development which the Third World is confronted with. The main contention of the dependency theory is that by integrating into the world system, the poor and underdeveloped states are impoverished while the developed states are enriched. Dependency theory therefore argues that not only is the poor states a primitive version of the developed states, but they have their own unique features and structures and, notably, are potential weaker members in a world market economy.

While there are various perspectives within the school of dependency theory, they all rejected the modernisation theory for the reason that it lacks in historical perspective and context (Kvangraven, 2017). Modernity also came under criticism for its failure to account for the crucial role of global economic and political structures to social progress and development. Furthermore, classical development theories like modernity has been criticised by the proponents of dependency theory for failing to address the development problems of the underdeveloped world, and also faulted for misleading the world by its notion that the association of the poor regions of the world with the developed world is in the interest of the former since technological and ideological transfers emanating from such relationship ultimately leads to adoption of new thinking and modern practices of solving problems (Shareia, 2015).

Some studies contend that the dependency school has been superseded by the production approach. For instance, Reece (1983) submitted that dependency approach must be ditch as an analytical framework for the reason of its postulation that circulation and exchange are the essential determinant of uneven levels of development, and not the level of production.

1.4 The World-Systems Theory and the Globalisation Theory

The dependency school and the theory of modernisation came under criticism in recent time due to the fact that the assumptions and results of both theories are based on the

nation-state as the sole unit of analysis, and that countries can follow only single path to achieve evolutionary development. The aforementioned assumptions infer that international connectivity or integration is largely ignored. This is actually the point of departure of the aforementioned schools from the new perspectives of the world-systems or the globalisation theory. The emphases of these recent schools are on international connections among nations, especially in relation to the integration of the global financial system, world technology, international trade and military cooperation (Reyes, 2001).

In view of the above highlighted weaknesses of the earlier schools, the world-systems and globalization emerged as direct outgrowth of the modernity and the dependency. The world-systems and globalization theories argue for a systemic level or unit of analyses order than a state-centric approach to social and economic progress. The world-systems, for instance recognise the relevance of political patterns as function of economic realities, and propose a knowledge economy where cutting-edge technology plays major role in global industrialisation, capital accumulation (Guranatne, 2001) and overall economic transformation and development (Martínez-Vela, 2001). The world-systems constitute efficient structures of a market-economy where products are exchanged between buyers and sellers (Kilembe, 2010; Worsley, 1980), thereby expanding the frontiers of world-economy and institutionalising capitalism, and creating and transforming households (Wallerstein, 2002).

According to the world-systems, the world is divided into three major regions: the core, the semi-periphery and the periphery. The core comprises developed countries while the periphery is made up of underdeveloped countries. The former happens to be less populated than the later. The two regions, however, serve different functions within the world economy usually referred to as core-periphery division of labour. The core is developed and industrialized whereas the periphery is underdeveloped. Resources and raw materials flow from the periphery into the core for industrial production. High-profile consumption goods flow back to the periphery (see Figure 2). The semi-periphery engages in intermediate level of production, and also supply resources and raw materials to the core. This very structure of the world economy ultimately makes the core richer.

Similarly, the globalization theory emerges from the global mechanisms of greater global connections and integration, especially on the sphere of economic transactions. In this sense, this perspective is similar to the world-systems approach. However, one of the key features of the globalization stance is its focus on cultural values and their communication worldwide. Robinson (2007) states that globalization has become an essentially contested concept. The proponents of globalization argue that the main modern elements for development interpretation are the cultural links among nations and not necessarily financial, economic and political ties (Reyes, 2001).

The globalisation school and the world-system theory take a global perspective in establishing the unit of analysis rather than the nation-state as proposed by modernization and dependency schools. Globalisation contends that global mechanism enhances greater integration among nations, and that promotes economic transactions across national boundaries. Hence, international ties and global connectivity play major

role in addressing the problems of inequalities and imbalances in the world economic system. Given the differences in culture and economic factors, extensive unification and interdependence among nations have become critical – an end which different countries generally achieve through trade and finance (Shareia, 2015). Globalisation, as it is generally understood, assumes that societies are much more closely connected today than ever before (Strikwerda, 2000), and that dependency is not a one-way process. Modern globalization makes any isolationist (autarky) politics of any nation impossible (Gabrielyan, 2014), therefore buttressing that interdependency is crucial in solving the problem of global inequality.

1.5 The Neoliberal Theory of Economic Development

As shown by economic history and the history of economic, development in the technological and social determinants of economic activities leads to evolution in the various economic theories, schools, and doctrines (Mączynska & Pysz, 2014). One of such is theory of neoliberalism which presupposes that too much official development aid and big government impede economic and social development, while pro-market reforms like privatisation, deregulation, labour and financial reforms, economic liberalisation and lowering taxation are essential to achieving economic growth (Siddiqui, 2012; Birch & Mykhnenko, 2008).

Neoliberals argue that free global trade can drive economic growth and large businesses can benefit more without government intervention. The development of global economies can therefore be attained through the promotion of ‘trade (liberalization) not aid’. They also contend that when governments get too big, they limit the freedom of dynamic people who steer development forwards. The theory maintains that it is difficult to do business in capitalist countries characterised by too many restrictions (regulations, rules, taxation etc.) which consequently leave economic development in such economies stagnated. Neoliberalism rests on a crucial assumption that capitalists support markets and that markets favour capitalists (Venugopal, 2015).

Generally, neoliberalism attempt to reintroduce concept of ‘the invisible hand’ established by Adam Smith in the 1750s to explain how the market is more efficient in allocating resources than the state. In the context of globalisation, neoliberalism has in recent time been argued to be the only alternative to market in the efficient allocation of resources and the promotion of economic growth and global competitiveness (Olesen, 2012; Patomaki, 2009). Thus, the most insistently repeated suggestion of the Neoliberals has been the deregulation of the marketplace (Bresser-Pereira, 2009). Under neoliberal development creed, economic activities are relatively less regulated, and nearly all production and service operations are largely coordinated by market mechanisms with limited state controls (Almeida, 2015).

Neoliberalism has also come under some criticisms. Some neoliberal policies have not actually delivered growth but instead gave rise to increase in inequality (Lunar, 2015), and in turn jeopardizing durable expansion (Ostry *et al.*, 2016). Decline in government power and influence due to increased Transnational Corporation power. Neoliberalism

is believed to have been surpassed by post-neoliberalist school that proposes greater government spending.

2. Conclusion

Theories and their linkages to economic development have remained the supporting structure of empirical research and analysis. In view of their importance to vigorous debate, this paper reviews selected economic development theories. From the front of classical theories of economic development came the modernisation theory which focuses on effecting transformation among institutional structures in less developed countries of the world through cultural changes while buttressing that political development is indispensable in ensuring progress and conducive environment for a nation's economic status. The theory, therefore, acknowledges the important role of politics in formulation and implementations of policies. In a different perspective, the dependency theory came as a critical response to the conservative development approaches that held sway in the aftermath of the World War II, and the collapse of the world colonial system. Moreover, as a response to criticisms of the dependency school and the theory of modernization, the world-systems and globalization theory emerged as direct outgrowth of the modernity and the dependency. The world-systems and globalization theories argue for a systemic level or unit of analyses order than a state-centric approach to social and economic progress. The world-systems, for instance recognise the relevance of political patterns as function of economic realities, and propose a knowledge economy where cutting-edge technology plays major role in global industrialisation, capital accumulation. Furthermore, the theory of neoliberalism argue that free global trade can drive economic growth and large businesses can benefit more without government intervention, while pro-market reforms like privatisation, deregulation, labour and financial reforms, economic liberalisation and lowering taxation are essential to achieving economic growth.

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